

ASSESSMENT OF INTERNAL AUDIT EFFECTIVENESS OVER CASH A CASE AWASH  
BANK WOLKITE BRANCH.



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**BY; HABTAMU CHUFARO**

**ADVISOR, Mr. ANDARGACHEW .H**

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## **Declaration**

I, the undersigned, declared that this senior essay paper is my original work. It has not been presented in any other university. All sources of materials used for the research paper have been dully acknowledged.

Name \_\_\_\_\_

Signature.....

Confirmed by Advisor:

Name \_\_\_\_\_

Signature.....

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## ACRONYM

ACCA - The association of chartered certified accountants

CAATs - Computer assisted audit techniques

CIA- Certified internal audit

CIA- Chief internal audit

CIPFA- Chartered institute of public finance and accountancy

CISA- Certified information system auditor

CDSO- The committee of sponsoring of the tread way commission

GAAP- Generally accepted accounting principles

IAP- Internal audit process

ISSPIA- International standard for the professional practice of internal auditing

IT- Information system

AIB-Awash International Bank

C.P.O-Certified Payment order

## **ABSTRACT**

*Well performing internal audit function is one of the strongest means to help an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of control and governance processes as well as to produce effective audit of high quality. As a result, in many countries it has received an increasing attentions an important component of government financial management and as a tool for improving the performance of their activities. In line with this, the effectiveness of audit activity is influenced by various factors and identifying these factors and treating them accordingly should be the central promises of the internal audit process in order to maintain effective audit of high quality at satisfactory levels. This study was aimed to assess the internal audit effectiveness over cash in case awash bank Wolkite branch. The study population constitutes (i.e. 49 respondents of all internal audit staffs have been taken). Based on this fact, both primary and secondary data were used. Descriptive statistical tools such as tables and percentages are used in analyzing the data collected.*

# Chapter One

## 1.1 Background of the Study

Internal audit encompasses the policies and procedures that an organization establishes to ensure that it operates in accordance with management's intentions and that accountability is maintained for all transactions. This includes the methods adopted by the organization to safe guard its assets, to check the accuracy and reliability of its accounting data, to promote operational efficiency, and to encourage adherence to prescribed managerial policies(Terengo Asmara 2013).Internal audit are put in to place largely to allow management to monitor operations, identify business risks, and generate pertinent financial and nonfinancial information, or internal audit are designed and implemented so that management can run the organization. Internal controls also ensure that responsibilities are met (Savcuk, 2007).

Internal audits are established to provide reasonable assurance that; transactions are executed in accordance with management's authorization are recorded as necessary to permit the preparation of accurate financial statements and to maintain accountability for the organization's assets, access to assets is restricted to instances authorized by management, and assets are Periodically compared with the accounting records, to determine the accuracy of the records and to account for the assets(Dumitrescu,2004and and Moraa,2012).

Effective internal audit undertakes an independent evaluation of financial and operating information and of systems and procedures, to provide useful recommendations for improvements as necessary. According to (MihertZelege and Yismaw, 2010; Cohean and Sayag, 2010; Ahmed et al, 2009; Arena and Azzone, 2009;;Dittenhafer, 2001) internal audit effectiveness is the interaction among the different factor such as the relationship between external and internal auditors, size of internal audit department, quality of audit work; professional proficiency, organizational independence, careered advancement and top management support. The effectiveness of internal audit greatly contributes to the effectiveness of each audited in particular and the organization at large (Dittenhafer, 2001).

An internal audit function's capability to provide useful audit findings and recommendations would help raise management's interest in its recommendations and the professional proficiency of the internal audit in terms of educational qualifications, professional qualifications, and work experience.

According to (KibruDessu, 2010) Cash, the most liquid asset and prone to theft or misplacement. Accordingly it is important to have internal audit to authorized personnel. The extent of the internal audit adopted by a business is limited by cost considerations. It is not feasible a cost stand point to establish audit structure that provides absolute

protection from fraud and waste. Cash is the medium of exchange, which a firm or an individual can disburse immediately without any restriction. The term cash includes coins, currency and checks held by the firm and balances in its bank accounts. Sometimes near-cash items, such as marketable securities, bank time deposit and near cash assets that can easily be converted in to cash. Cash is the oxygen that enables a business to survive and prosper and is the primary indicator of business health. A business can survive for a short time without profit but it will die without cash. Cash has been described as an asset, which banks acquire in exchange for deposit liability. In other word when a customer puts money in to his bank account, the bank acquires cash in exchange.

Cash or money has a long evolutionary history, and we are familiar with money. After all, we handle it every day of our lives and its use regulates many of our daily activities. Yet how often do we pause to consider just how artificial a device it is? Nevertheless, the invention of money was as crucial to the development of our modern commercial economy as the invention of the wheel was to the development of technology. Beginning of the period of ancient time/antiquity, men from all walks of live have searched for things, which made their life on the earth easy and comfortable. Though was being the case, to their existence. There was no commerce with other groups. What the community could not provide for itself, it went without like alone individual living in the wilderness and catering for his own needs without assistance, such societies have not need or use for money. As a result, the primitive men were used to get what they themselves did not produce or possess either forcefully or through theft. However, they gradually realized that such methods were no longer effective and desirable to social stability and order. Men, being a rational animal, instead began to seek other peaceful ways of getting what they need for their survival or existence. Barter was the first and the crude method they have invented as a solution to the problem (Kibrudessu, 2010).

Now a day, it is not paper money that people carry around most of the time in highly developed countries use checks, credit cards, ATM (Automated Teller Machine or Payment card) were introduced in most developed countries. Having enough amounts of capital in the form of cash is the most important source for every aspects of investment. To improve the performance of the business as well as to introduce new business opportunity in the organization cash is very important. Due to this cash is the most powerful working capital. So, the collection and payment of cash must be managed carefully. Based on this, the research try to assess ways on how cash is controlled and managed in awash bank in Wolkite branches. After completion of the study, there may be possibilities of recommendations that could be assumed to find out the problems related with cash.

## 1.2 Statement of the problem

One of the management top priorities is to establish and maintain a strong effectiveness of internal audit over cash at Awash Bank. Any huge organization is required to produce financial statements, should have accounting Policies, internal control systems and procedures, internal controls can only be as good as the people working with them. Good internal audits seek to mitigate the occurrences of dishonesty, misuse and mistakes will occur, therefore the reason to undertake this paper is to test the assessment of internal audit effectiveness over cash in Awash Bank in order to adhere in accordance either the general.

Internal Audit is an objective and independent appraisal service within an organization on risk management, control and governance by measuring and evaluating their effectiveness in achieving the organization's agreed objectives (Tamene et al, 2014; IIA, 2012 and Maruszewska and Bialy, 2013). Furthermore, internal audit's findings are beneficial to the Board of Directors and line management in the audited areas. The service applies the professional skills of internal audit through systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organization's objectives, and through recommendations for improvement (Dumitrescu, 2004). Rule or regulation accepted universally.

In the previous researcher conducted about internal audit in Ethiopia haven't get due attention in one hand and are inefficient for the performance of an organization, on the other hand. Abraham (2015) Assess a research on assessment of internal audit effectiveness over cash on construction and business bank in Ethiopia. The objective of this study was to assess the internal audit effectiveness over cash (management support, management's perception of internal audit values, organizational independence of internal auditors, placement of adequate and competent internal audit staff, and the presence of approved internal audit charter) and to show the influences of the same on the effectiveness of internal audit over cash activities in the Construction and Business Bank. The Sample size of 132 was identified from the total population 196 using Taro Yamane's Formula and out of which only 120 respondents filled and returned the Questionnaires. Accordingly the study uncovered that the management support, the existence of adequate and competent internal audit staff followed by the organizational independence and managements perception highly affect the internal audit effectiveness in in the Construction and Business Bank. However, it is also found that the presence or absence of approved internal audit charter has no effect on the effectiveness of internal audit task accomplishment. Finally, he recommended that

the Construction and Business Bank should understand which factors highly affect the effectiveness of its audit over cash team at the corporate level in order to enhance its audit team effectiveness. It is also recommended that if similar research will be done in the future so as to uncover those factors not included in this study but has consequence on the effectiveness of internal audit over cash activities. Habtamu, et.al. (2015) assess the effectiveness of internal audit over cash in improving the performance of an organization in Wollo University by using both primary and secondary data. The result showed that there is no auditing committee and auditors didn't have required experience, adequate resource allocation, and even didn't have audit charter and concluded that internal audit is ineffective to audit and haven't yet contributed for the performance of the university. Furthermore, as studied by Amina (2015), on the role of internal auditor in private and public organizations in Jimma zone selected woredas by using both primary and secondary data and found out that internal auditors haven't either audit committee or audit charter, and the auditors are not professionally well certified and couldn't entertained their role. As to the best knowledge of the researcher, there is no well rectified research conducted on the assessment of the effectiveness of internal Audit of bank of Ethiopia as it played a massive role for the development of financial sector and for the overall economic growth of the country. So the study fill the literature gap in the area by assessing all these limitations of application of the standards of the institute of internal auditors regarding the effectiveness of internal audit over cash in Awash Bank wolkite Branch.

### **1.3 Research questions**

- How is the procedure to internal control of cash receipt?
- How is the procedure to internal control of cash payment?
- What type of record maintained by teller to check against cash on hand?
- Do you have insurance coverage for money in transit?

### **1.4 Objective of the Study**

#### **General Objective of the study**

- ✓ To assess the effectiveness of internal audit over cash in Awash Bank Wolkite Branch.

## **Specific Objective of the Study**

- To assess the internal control over cash receipt of the company
- To identify and evaluate internal control over cash payment of the company
- To assess internal control over physical cash of the company
- To assess cash movement analysis

### **1.5 Significance of the study**

This study will have a significance to provide relevant information to the concerned bodies in addressing problems related to the effectiveness of audit activity in the study area and for policy making regarding audit effectiveness. The study will also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding audit effectiveness

### **1.6 Scope of the study**

The Study is limited to the assessment of the effectiveness of internal audit over cash activity in Awash Bank of Wolkite Branch. Furthermore, the study focuses on all members of the target group for the assessment of the audit effectiveness. The research is also limited to assess the effectiveness of Internal Audit over cash in Awash Bank Wolkite Branch and the finding cannot conclude other similar organization.

### **1.7 Limitation of the Study**

The major problems of the study, among others were findings the Bank of Awash, officials for an employee's due to their willingness and short of time, the second problem of the study was delay of respondents to reply distributed questioners. And the other problem which was faced by the student researcher was lack of experience in how to deal with research paper.

### **1.8 Organization of the study**

This paper organized in to five chapters. The first chapter deals with introduction part of the study; this is background of the study, statement of the problem, objective of the problem, scope of study, limitations, significance of the study and organization of the study . The second chapter assesses previous literature and studies significant to the field and related topics. The third chapter indicated Research Method and

Methodology. The fourth chapter indicated analysis of interpretation of data and the fifth chapter is conclusion, summary, and recommendation, followed by the list of references used.

## **CHAPTER TWO**

### **Literature Review**

#### **2.1 Introductions to internal Audit system**

According to (savcuk, 2007), Internal audit is the plan of organization and the methods a business use to sale guard assets, provide accurate and reliable information, promote end improve operational efficiency, and encourage adherence to prescribed managerial policies. Internal audit is a process affected by entity board of directors, management and other personal designed to provide reasonable assurance regarding the achievement of objective in the following categories. Reliability of financial reporting Compliance with appreciable lows and regulations Emergency and effectiveness of operations and Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations and the 11A (2008) and must have a high level of education in order to be considered a human resource (Bou-Road, 2000) and Millichamp (2000) defined internal auditing as “An independent appraisal function within an organization for the view of system of control and the quality of performance as a service to the organization. The objective of auditing is to review and evaluate the activities of the organization with a view to express an opinion on the efficiency and effectiveness of management, as well as the adequacy of internal control within an organization.

#### **2.2. Theoretical Framework of Internal Auditing over cash**

In order to determine internal audit efficiency evaluation principles, it is important to analyze the concept of internal audit (Savcuk, 2007). Undoubtedly, the large amount of definitions that is given by researchers depicts the great importance of internal auditing over cash. More specifically, the institute of internal auditors, (IIA, 2008; Taylor and Glezon, 1991; IIA, 2008) defined internal auditing as an independent appraisal function established within an organization to examine and evaluates its activities as a service to the organization. By measuring and evaluating the effectiveness of organizational

controls, internal auditing, itself, becomes an important managerial control device and which is directly linked to the organizational structures and the general rules of business (Cai, 1997) A more specific definition by (Sawyer, 2003), who stated that internal auditing is a systematic, objective appraisal by internal auditors of the diverse operations and control. The Institute of Internal Auditors (IIA) as cited by Quaden (2001), defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes. Danbatta (2004) concludes that a properly conducted internal audit is expected to reveal errors, strengths or weaknesses of internal control system of the organization. Base on his conclusion, there is significant positive relationship between internal audit and internal control.

### **2.2.1 MEANS OF ACHIEVING INTERNAL AUDIT**

For purpose of financial statement audits the policies and procedures used by an entity to achieve internal audit are referred to as the entity's internal audit structure. Internal audit structures vary significantly from one organization to the next depending on such factors as the size nature of operations and objectives of the organization for which the structure was designed. Yet certain features are essential to satisfactory internal control in a most and large scale organization. The internal audit structures of all large organizations include five components. The Committee of Sponsoring Organizations (COSO,1994), Act of Sarbanes Oxley, American Institute of Certified Public Accountants (AICPA) and General Accounting Office (GAO) claim effective internal control should primarily have five elements namely; These are includes control environment, risk assessment, accounting information and communication system, and control activities, and Monitoring.

#### **The control environment**

Beneish et al (2008), defines the control environment as the tone of an organization and the way it operates. The control environment sets the tone of an organization by influencing the control consciousness of people. It may be viewed as the foundation for the other component of internal control. Control environment factors include integrity and ethical values commitment to competence bound of directors or audit committee management's philosophy and operating style organizational structure human resource policies and practices and assignment of authority and responsibility (COSO, 1992).

## **Risk Assessment**

According to Meisser, (2003) risk assessment is the component related to the identification of risk, analysis of risk and management of risk. Management should carefully consider the factors that affect the risk that the organization's objectives will not be achieved. When considering the financial reporting objectives there risks include the threats to preparing financial statements in accordance with generally accepted accounting principles. The following factors might be indicative of increased financial reporting risk (Betelhem Tesfaye2012). Changes in organizations regulatory of operating environment Changes in personnel, Implementation of a new or modified information system. Rapid growth of the organization Change in technology affecting production processes or information systems. Introduction of new lines of business products or processes

## **The accounting information and communication system**

Information and communication systems capture, process and report information to be used by parties both within and outside the organization. An organization's accounting information system consists of the methods and records established to identify assembly analyze classify, record and report an entity's transactions and to maintain accountability for the related assets. According to (Guy et al., 1999), effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information. Moreover, the system should be communicated to everyone in the organization. Identify record all valid transaction Describe on a timely basis the transactions is sufficient detail to permit proper classification of transactions for financial reporting. Measure the value of transactions in a manner that permits recording of transactions in the proper accounting period. Present properly the transactions and related disclosures in the financial statements.

## **Control activities**

Under Act of Sarbanes Oxley act (SOX, 2002) Control activities are the policies and procedures that assist in ensuring that management directives are successfully implemented. They provide the means to address the various risks that may hinder the achievement of the organization's objectives. Are policies and procedures that help ensure the managements directives are carried out. Those policies and procedures help ensure that actions are taken to address the risks that face the organization. While there are many different types are generally relevant to an audit of the organization's financial statements. These are performance reviews, information processing, physical control, and segregation duties.

## **Monitoring;**

Spencer (2003) used quote “hundreds killed by doctors relying on outdated manuals” from New Times (1997) to elaborate how necessary to update an internal control is within organizations. According to Spencer (2003) to ensure the reasonable assurance regarding achievement of the organizations objectives, the monitoring process should be performed to evaluate and assess the systems of internal control to ensure that the procedures are consistently applied over an extended period of time. Monitoring activities may be ongoing or may be separate evaluations and it is important given the complex and dynamic environments faced by most organizations (Henle 2005). It seeks to ensure that systems are performing as intended. However, this is accomplished through ongoing monitoring activities, periodic evaluations or a combination of the two (COSO, 2004). Henle (2005) further contends that these activities permeate the entire organization, at all levels and in all functions.

### **2.2.2 The purpose of a system of internal controls**

It assure that assets that belong to the business later pries are received When tendered, are protected while in the custody of the enterprise are used only for authorized while in the custody of the enterprise are used only for Authorized business purposes. Such a system consists of administrative control and accounting control. Controls are policies that companies enact to manage risk and increase the likelihood that everyone works toward the same goals and objectives (Gramling, 2004). Internal auditors evaluate controls in areas like operational efficiency, data and information security, and financial compliance. These controls can be preventive, meaning designed to prevent errors from being introduced, or detective, seeking to find errors or irregularities after the fact. Auditors take an objective look at how these controls are serving the organizational goals. Good internal controls are essential to assuring the accomplishment of goals and objectives. They provide reliable financial reporting for management decisions. They ensure compliance with applicable laws and regulations to avoid the risk of public scandals. Poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process transactions, increase the time required to process transactions and add no value to the activities. Good internal controls help ensure efficient and effective operations that accomplish the goals of the unit and still protect employees and assets. An auditing hand book by Spencer (2003) classified principal internal control as; administrative control, informational control, managerial control, procedural control and physical control

**Administrative control**- includes but is not limited to the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions, such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.

**Accounting control:** - comprise the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records are consequently are designed to provide reasonable assurance that: Transactions are executed in accordance with management's general or specific authorization. Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets. Access to assets is permitted only in accordance with management's authorization. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. A system of internal controls is not designed primarily to detect errors but rather to reduce the opportunity for errors or dishonesty to occur. In effective system of internal controls no one person should carry out all phases of a business transaction from beginning to end (Edward K.T Chow, 2005). The system of internal control frequently may be improved by physical safeguard computer help to improve the efficiency and accuracy of the record keeping function cash registers safes and renumbered business forms are very helpful in safeguarding cash and controls must be supervised with care if it functions effectively (Gramling, 2004).

### **2.2.3 Internal control classification**

The concepts of internal control and management control are broad in scope. amide at describing entire control systems. The specific control procedures used in these systems may be classified using the following four internal control classifications. a. Preventive detective and corrective preventive controls deter problems before they arise hiring highly qualified accounting personnel appropriately segregating employee duties and effectively controlling physical access to assets, facilities and information are effective preventive controls because not all control problems can be prevented detective controls are needed to discover control problems as soon as they arises examples of detective controls are duplicate checking of calculations and preparing bank reconciliations and monthly trial balances corrective controls remedy problems discovered with detective controls they include procedures taken to (1)

identify the cause of a problem (2) correct resulting errors or difficulties and (3) modify system so that future problems are minimized or eliminated. Examples include maintaining, backup copies of key transition and master file and adhering to procedures for correcting data entry errors as well as those for resubmitting transactions for subsequent processing. General and application:- general control are designed to ensure that an organizations control environment is stable and well managed to enhance the effectiveness of application control are used to prevent, detect and correct errors and correct and irregularities in transactions as they are processed. Administrative and accounting administrative help ensure operational efficiency and adherence to managerial policies in contrast accounting controls help safeguard assets and ensure the reliability of financial records. Input processing and output:- controls can also be classified according to where they are implemented in the date processing cycle.(marshal B-Romney,1999)

## **2.2.4 Internal Control Procedure**

According to (Edward K.T Chow,2005),Internal control is important for every business no matter what its size each step in the accounting process of a firm should be planned to ensure accuracy honesty and efficiency an essential technique for achieving these goals is to divide responsibility so that every major accounting routine involves two or more employees and the work of one person in addition to division of responsibility accountants use a number of other widely recognized techniques to design internal control procedures for a business (GLENCOE-macmillan/McGRAW-Hill pp-285) Control procedure is those policies and pressures in addition to the sub elements of the control environment and features of the accounting system that management has established to meet its objectives there are potentially many such policies and procedures in any entity. However they generally fall in to the following four categories these are: - Adequate separation of duties, Proper authorities of transaction and activities, adequate documents and records, and Physical controls over assets and records.

**Adequate separation of duties;** A fundamental concept of internal control is that no one department or person should handle all aspects of a transaction form beginning to end we have already discussed the segregation Of responsibilities among departments in similar manner no one individual should perform More than one of the functions of authorizing truncations recording transactions and

maintaining custody over assets. Physical control over assets and records these control activities include the physical Security over both records and other assets safeguarding of records may include maintaining control at all times over un-issued pre numbered documents as well as other journals and ledgers and restricting access to computer programs and data files.

**Performance review** ;These controls include reviews of actual performance a Compared to budgets forecasts, and period performance relating Different sets of data to one another and performing overall Reviews of performance. Performance Reviews provide management with an overall Indication whether personnel. At various levels are effectively pursuing the objectives of the Organization.

**Information processing**A variety of control activities are performed to check the accuracy completeness and authorization of transaction the two broad categories of information processing controls include general controls which apply to all information processing activities and application controls which apply only to a single application an internal control device of wide applicability is the use of serial numbers on documents serial number provide control over the number documents issued cheque tickets sales invoices purchase orders stock certificates and many other business papers can be controlled in manner (Whittington and pany 1995)

### **2.2.5 Internal Audit of banking activities**

Basel committee on Banking Supervision (2001), Accountants usually recommend that the following measures be taken to achieve internal audit over banking activities. Access to check book should be restricted to a few designated employees when not in use the check book should be kept in a locked drawer or cabinet. Pre numbered check forms should be used periodically; the numbers of the blank forms remaining should be verified to make sure that all forms can be accounted for. Before checks are signed they should be examined by a person other than the one who prepared them they should be matched against the approved invoices or other payment authorizations. The monthly who prepares the checks and records them in the check book should not be the one who mails them to the payees. The monthly bank statement should be received and reconciled by someone other than employees who handled, and deposited the cash receipts and issued the checks. All deposit receipts canceled checks, and bank statements should be filed for future references this creates a strong audit trail for the checking account.

### **2.2.6 Typical deficiencies in internal audit**

Evidence of the internal control system's failure to prevent or detect misstatements of accounting or bookkeeping information. It include:- Evidence then the system is failing to safeguard assets from loss damage or misappropriation, Evidence of the intentional override of the system by those in authority, of failure to Evidence perform the task that are part of internal control structure (Such as reconciliation not being prepared in a timely and accurate manner), Evidence of willful wrong doing by employees or management, Evidence of manipulation falsification, or alteration of accounting records or supporting documents: Evidence of intentional misapplication of accounting principles and evidence that employees or managers lack the qualifications and training of fulfill their assigned functions, most internal control measures can be circumvented or overcome, and Collusion is when two or more employees work as a team with the purpose of defraud the firm.

### **2.2.7 Problems that arise a result of weakness in cash audit**

Kitting:- us a means of over station bank balances either to conceal a cash shortage or to increase cash reported on balance sheet. lapping:- to cover a cash theft an employee defers recording of cash receipt from one customer and covers the shortage with receipt from another customer or a fraud involving abstracting cash from a customer and covering the resulting shortage with subsequent cash collection from another customer .Lapping typically occurs when one employee records cash in both the cash receipt journal and account receivable ledger. Lapping will be reviewed by unsupported discrepancies found while confirming account receivable balance. Window dressing: is attempt by management to improve the liquidity of the company it is an action taken shortly before the balance sheet date to improve the cash position or to an improved financial picture for example cash receipt journal is held open for a few days after the close of the year. (Whittington and pany. 1995)

## **2.3 Internal Audits over Cash**

Because cash is negotiable readily spend able and sassily transported it is important for proper internal control to be in place to protect this asset. Accordingly it is the policy of the company that the following internal control over cash is implemented throughout the organization (Gross, J.A, 2006). Access to cash must be limited all funds should be kept secure at all of time fund should be kept in safe locked box. All funds except for the imprecated cash must be deposited in accordance with the daily deposit policy. Cash operation must be subject to daily supervisory review to minimize the potential for mistakes in cash

operation and /or misappropriation of cash, cash duties should be separated among employee so that in all instances one person will check the work performed by another. All cash must be completely and accurately recorded in the financial records of the company to insure this transmittal form should be prepared.

### **2.3.1 The main objective of internal control over cash**

company`s system of internal control over cash must be sufficient to provide reasonable assurance that the following objectives are full field. Cash transition are valid, the systems do not permit the inclusion of factious or nonexistent transaction for example the record cash balance is exist? Transactions are properly authorized, if transactions are not authorized takes place it could result in fraudulent transactions. And it could also have the effect of wasting on Destroying cash is any discernment is receipts authorized before actually performed. Existing cash transactions are recorded (completeness). The client procedure must provide control to prevent the omission of cash transaction from records. Does the existing cash transaction are record? Transactions are properly valued (valuation).Avoid error in calculating the recording transaction. Transaction is properly classified (classification).The proper account classification according to the company`s Chart of account. Transaction are recorded at proper time Failing to record at a time look place may increase the likely hood of omitting the transaction or Recording at the improve account. Transaction is properly included in subsidiary ledger records and currently summarizes (Alvin A-Areas, 2001)

### **2.3.2 Elements of internal audit over cash**

#### **A) Competent, reliable and ethical personnel**

Company carefully screens employees for understandable personality traits they also expend large sum for training program. Cash disbursements are interested to high level employees with large amounts paid by the treasure or assistant treasurer.

#### **B) Assignment of responsibility**

Specific employees are designed as cashier`s supervisor of cashiers or accountants for receipts. And also specific employee approves purchase documents for payment executives amines approve, and then sign checks. Good and desirable internal control measures that ideally may be considered to segregate duties and functions are:- Cash receiving and keeping, cash mail receiving. Depositing of cash, comparison of cash receipts and deposits, general ledger entries and records, preparation of bank reconciliation, custody

of petty cash fund, payment voucher preparation, check preparation, check signing and issuing, check custody, voucher register (entries), advance payment purchase and travel and other advance. Review of internal control would mean reviewing that: - all sources of cash receipts (sources of income) are properly established, identified and authorized at point of operation, which includes examining cash collection. All cash receipts are documented includes assuring property of forms and mathematical accuracy. All cash receipts are handled strict protective custody, which includes physical protection, daily depositing of cash receipts in facts to a bank or central cashier and cashier integrity. All supporting records and evidences of cash receipts are independently corporate and maintained.

### **C. paper authorization**

Only designed employees such as department managers can grant exceptions for customers approve check receipt above certain amount, and allow customer to purchase on credit. Also large expenditures must be authorized by the company owners or board of directors to insure agreement with organizational goal. (Whittington and pany, 1995)

### **2.3.3 Controlling cash receipts and payments**

The objective sought in the control of cash receipts is the assure that all cash that is receivable by the business enterprise is collected and recorded without loss. The system of controlling cash payments (with drawl) should be designed to ensure that no unauthorized payments are made. Control is accomplished by division of responsibility to achieve independent verification of cash transactions without duplication of effort. Cash is safeguarded by keeping in a safe, depositing it in banks, and through the use of special (imp rest) cash funds.

#### **Receipts:-Making bank deposits:-**

In a firm that has a good system of internal control, cash receipts are deposited often. Keeping substantial amounts of cash on the premises for long period of time is dangerous practice. For this reason many businesses make a daily bank deposit, and some make two or three deposits a day. In addition to safeguarding cash, frequent bank deposits provide a steady flow of funds for the payment of expenses and other obligations. A deposit slip or deposit ticket must be prepared for each bank deposit. These forms are usually provided to the depositor by the bank in which the account is maintained and are usually preprinted with the assigned account number. The bank may acknowledge receipt of a deposit in a variety of ways. Most foreign banks issue a machine – printed receipt form indicating the date and the amount of money received. This method is widely used for mail deposits and deposits made in automatic

teller machines. However, the most common method is for the bank teller to stamp and return one copy of the multi-in this way, the depositor obtains a receipt copy with all the details of the deposit. This copy is kept on file for a period of time as proof of the deposit in case it is needed.

## **Payments:**

A strong system of internal control system requires that all payments be made by cheque except those that are made from a carefully controlled special purpose cash fund such as a petty cash fund. Certain rules must be followed when preparing cheques so that the cheques are valid and cannot be altered easily. The correct procedures for issuing cheques are the following. A bank (the drawee) to pay a specific sum of money to a designated person or firm (the payee) such a cheque is negotiable, which means that ownership of the cheque can be transferred to another person or firm. (GLENCOE MACMILLAN, 1992)

## **BANK CASH: - PRIMARY RESERVES**

The decisions of commercial banks regarding cash management involve the amount of cash of various kinds to be held. Primary reserves or cash is held in several different forms currency and coin, deposit with the district national bank and balances with other commercial banks. These are by no means perfect substitutes for one another. If customers want to withdraw currency say because the bank must have the currency and coin to give them. It cannot give those checks on its balances at correspondent banks. Similarly if the bank wants to buy some governments securities it may find it most convents to pay with a check drawn on its national bank or correspondent bank it can no conveniently pay with currency from the till. While the bank can exchange one from of primary reserve for another takes some time and may involve a modest expense. Thus, the management of cash involves the management of several imperfectly substitutable assets like other assets the various types of cash are held to meet certain functional needs. The bank estimates the amount of each kind of cash it needs.

## **SECONDARY RESERVES: NANAGING THE MONEY POSINTION**

The investment strategy of the national bank requires a certain volume of funds to be kept in cash plus liquid assets to assure the ability of the bank to meet any cash drain that might occur within the near future. Liquid assets we recall are earning assets that can be turned into cash on short notice without the hazard of substantial loss. Since liquid asset earn interest while cash does not the basic management strategy of banks. The Value for Money shows that effective Internal Control Systems results in the achievement of Value for Money. The success for a public sector organization is the degree to which it fulfills its set objectives and mission in terms of being efficient, effective and economical. The Internal Control Systems are keys in achieving the organizational set mission and objectives; hence Value for Money. However, many authors hold that Value for Money is a term used to assess whether or not an organization has obtained the maximum benefit from the goods and services it acquires and / or provides, within the resources available to it. Value for Money (VFM) can be achieved by eradicating waste in benefits services processes and systems. Value for Money is not paying more for a good or service than its quality or availability justifies as well public spending implies a concern with economy (cost minimization), efficiency (output maximization) and effectiveness (full attainment of the intended results) (Glendinning, 1998; Davies, 2007; Deakin 1998 ). The most effective way to improve Value for Money is by reducing the level of irregularity and fraud through improvements in the Government's systems of internal financial control (Kaplan, 2009). Communities need to be assured that their resources are being used efficiently and effectively in providing the right service at the least cost. However, Kerr (2005) observed that the will to provide Value for Money in Government spending is weak because accountability to taxpayers and the public is generally weak. According to Heald (2003), VFM analysis needs to pay attention to total risks and VFM is related to concepts of efficiency and effectiveness. Fryer, Jiju, & Ogden, (2009) hold that despite a long period of implementing performance management within the public sector, improvements in performance, accountability, transparency, quality of service and Value for Money have not yet been achieved. Government policies now promote effective control particularly in the management of resources while stressing the values of economy, efficiency and effectiveness (Value for Money) (Sanderson, 2001). Effective; Control Environment, Control Activities, Risk Assessment, Information and Communication, and Monitoring are a necessary to achieve organizational objectives and should achieve Value for Money (INTOSAI 2004). Internal Control Systems were studied under the constructs of Control Environment, Control Activities, risk assessment, information and communication and monitoring while Value for Money constructs were Economy, Efficiency and Effectiveness. The model on INTOSAI (2004)

## **2.4. Empirical Reviews on Internal audit effectiveness over cash**

As the main aim of this research is to assess the effectiveness of internal audit over cash, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. the effectiveness of internal audit in the banking industry in particular are challenged because of the factors that hinder the development of internal audit over cash in Wolkite Branch According to (Ann Quuilopo Barry, 2003) A study on internal control environment and control activities. It was revealed that at the time of the study, the provisions of the control environment, organization and authorization policies and management control methods are often implemented. Audit committee function and human resource policies obtained a lower descriptive rating of sometimes implemented. Relatively low levels of implementation are found in the following control factors: (a) active participation in the activities and compliance with the requirements of the federation or union; (b) imposing strict adherence on segregation of duties; (c) strictly adheres to the written code of ethics; (d) provision of monthly financial reports; (e) BOD's adequate and immediate investigation of variances; (f) assistance and coordination with external auditors; (g) verifies proper handling and security of funds; (h) employment of full-time managers; and (i) distribution of procedures manuals as work guidelines. The test on the significant difference in the level of implementation of control environment when the respondents are grouped according to their profile, showed a significant difference in internal audit policies only when they are grouped according to their size of membership. It was found out that at the time of the study, there is a high level of effectiveness of the control activities in all areas of collection and revenue cycle as well as in the acquisition and disbursement cycle. Relatively low levels of implementation are found in the following control factors: (a) reconciliation of subsidiary and general ledgers; (b) policy on writing offs; (c) preparation of monthly portfolio reports; (d) responsibilities in the preparation of monthly bank reconciliation; (e) cashier not having access to books of accounts; (f) pre-numbering of purchase-related form; (g) necessary stamping of documents after release of checks; and (h) proper control of unused documents. The test on the significant difference in the level of effectiveness of control activities when the respondents are grouped according to their profile, showed a significant difference in cash receipts and cash disbursements. On the relationship between the level of

implementation on the control environment and the level of effectiveness of the control Activities, it was noted that the area on organization and Authorization Policies is moderately correlated with the level of effectiveness of Cash Receipts and Acquisition of Goods and Services and Cash Disbursements. Moderately correlated was also the area of Management Control Methods with the Cash Receipts and Cash Disbursements. For the areas on Audit Committee Functions, it was noted to be moderately correlated with Services Other Than Credit and Cash Receipts. Lastly, the area of Human Resource Policies is moderately correlated with the level of effectiveness of Cash Receipts and Acquisition of Goods and Services.

Mahdi, Mahmoud, Shiri and Fatemeh (2011) assess the effectiveness of internal control over cash in the Iranian banking sector with special reference to Bank Mellat. The study used questions that needed to be answered in the study are: (1) Does an internal control system in Bank Mellat has proper power in preventing fraud and error? (2) Is there a significant relationship between the weaknesses of internal control system components (control environment, risk assessment, information and communication, control activities and monitoring) and the occurrence of error and fraud? To test the validity of the questions, hypotheses are postulated relating frequency of fraud reported as failure of internal control with the questionnaire answered on the relationship between the fraud and components of internal control. The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous monitoring on failure of internal control quantified as reported errors and fraud. The empirical evaluation found out that all the elements of the internal control have significant effect on occurrence of errors and fraud, though the magnitudes are different. Accordingly, Weakness of control environment, control activities, risk assessment, information and communication and monitoring as a component of internal control system in an incident of error and fraud is effective. Therefore, the more the increase in the weakness of a control environment, control activities, risk assessment, information and communication and monitoring in Bank Mellat, the more is the incident of error and fraud. However, statistically control environment is found to have the highest effect for the failure of internal control.

Keitany (2000) conducted a study on internal control over cash functions and its implications for risk assessment by the internal auditor for the case of cited companies. This was a qualitative study using a

multiple case-based approach in which the researcher made observations, examined documents and interviewed senior internal auditors in six New Zealand organizations. He concluded that even though the extension of reliance on internal control is not sensitive to the strengths of audit departments, companies should not do away with it. This is because as a management tool it should assist management in its day to day operations and not necessarily of any relevance to the external auditor. This may be attributed to the fact that external auditor may have specific considerations which may be beyond the strength of internal controls. However, the system of internal control was ranked as the most important factor in obtaining audit evidence other indicators followed. Finally, he recommended that once the auditor establishes the strength of the audit department, other risk indicators come into play nevertheless the strength of internal control. Informing these concepts is the auditor's ability to manage vagueness.

Tamene et al (2014) conducted a research on assessment of internal audit effectiveness over cash in commercial bank of Ethiopia. They found that all internal audit employees of the internal audit department are capable to compute and effectively operating due professional. The internal auditors are currently enjoying organizational independence in their day to day activities of audit work. That means there is no conflict of interest and direct contact with the board and senior management. The internal audit process has guide line and contract related to their process which is prepared in accordance with international standards. But the guide line lacks periodic revision and detailed steps needed to be followed by the auditors which may have an adverse effect on their audit activities. They concluded that there is positive understanding among the auditors for having standardized guide line which is periodically revised and if successive work are done with this regards perhaps better results can be listed in producing quality audit work. Finally, they recommended that effective audit can be produced if internal auditors have more organizational career opportunity for promotion and training in the internal audit processes so the organization needs to make available the career and advancement opportunity for the internal auditors.

Abraham (2015) assesses a research on internal audit effectiveness over cash on construction and business bank in Ethiopia. The objective of this study was to assess the internal audit effectiveness over cash (management support, management's perception of internal audit values, organizational independence of internal auditors, placement of adequate and competent internal audit staff, and the presence of approved internal audit charter) and to show the influences of the same on the effectiveness

of internal audit over cash activities in the Construction and Business Bank. The Sample size of 132 was identified from the total population 196 using Taro Yamane's Formula and out of which only 120 respondents filled and returned the Questionnaires. Accordingly the study uncovered that the management support, the existence of adequate and competent internal audit staff followed by the organizational independence and managements perception highly affect the internal audit effectiveness in in the Construction and Business Bank. However, it is also found that the presence or absence of approved internal audit charter has no effect on the effectiveness of internal audit task accomplishments. The study also found that the management support, management's perception of internal audit values, organizational independence of internal audit, adequate and competent internal audit staff, and the availability of approved internal audit charter accounted for about 53% in determining the internal audit effectiveness in the Construction and Business Bank. Finally, he recommended that the Construction and Business Bank should understand which factors highly affect the effectiveness of its audit team at the corporate level in order to enhance its audit team effectiveness. It is also recommended that if similar research will be done in the future so as to uncover those factors not included in this study but has consequence on the effectiveness of internal audit activities.

## **2.5 Research Gap and Conclusion**

In general the literature indicates that organizations should invest heavily on the internal control and used to improve the quality of their internal control systems. The devotion of resources, knowledge, time and human power is needed for a number of reasons, notably: good internal control is good business by itself. It helps organizations ensure that operating, financial and compliance objectives are met. In the previous researcher conducted about internal audit in Ethiopia in the empirical literature indicated that; though internal control is reasonably a preventive shield of fraud and misappropriation of stewards of resources, several reported cases of fraud and reporting scandals over the world have so far refueled public policy debates on internal control, that internal control become an issue of considerable interest to policy makers and management to avoid, on these. Habtamu, et.al. (2015) investigated the effectiveness of internal audit over cash in improving the performance of an organization in Wollo University by using both primary and secondary data. The result showed that there is no auditing committee and auditors didn't have required experience, adequate resource allocation, and even didn't have audit charter and

concluded that internal audit is ineffective to audit and haven't yet contributed for the performance of the university. Abraham (2015) assesses a research on assessment of internal audit effectiveness over cash on construction and business bank in Ethiopia. The objective of this study was to assess the internal audit effectiveness over cash (management support, management's perception of internal audit values, organizational independence of internal auditors, placement of adequate and competent internal audit staff, and the presence of approved internal audit charter) and to show the influences of the same on the effectiveness of internal audit over cash activities in the Construction and Business Bank. The Sample size of 132 was identified from the total population 196 using Taro Yamane's Formula and out of which only 120 respondents filled and returned the Questionnaires. Accordingly the study uncovered that the management support, the existence of adequate and competent internal audit staff followed by the organizational independence and managements perception highly affect the internal audit effectiveness in in the Construction and Business Bank. However, it is also found that the presence or absence of approved internal audit charter has no effect on the effectiveness of internal audit task accomplishment. Finally, he recommended that the Construction and Business Bank should understand which factors highly affect the effectiveness of its audit over cash team at the corporate level in order to enhance its audit team effectiveness. It is also recommended that if similar research will be done in the future so as to uncover those factors not included in this study but has consequence on the effectiveness of internal audit over cash activities. Furthermore, as studied by Amina (2015), on the role of internal auditor in private and public organizations in Jimma zone selected woredas by using both primary and secondary data and found out that internal auditors haven't either audit committee or audit charter, and the auditors are not professionally well certified and couldn't entertained their role. As to the best knowledge of the researcher, research conducted on the assessment of the effectiveness of internal Audit over cash of bank of Ethiopia as it played a massive role for the development of financial sector and for the overall economic growth of the country. So the study fill the literature gap in the area by assessing all these limitations of application of the standards of the institute of internal auditors regarding the effectiveness of internal audit over cash in Awash Bank wolkite Branch.

## **CHAPTER THREE**

### **1. 3.1 Research Design and Methodology**

Research involves a wide range of skills and activities. One must be able to devise methods of data collection and gather appropriate and enough data, must be able to work with a wide variety of people, understand the specific methods uses to conduct research, and the subject being studied be able to convince the firm to secure necessary findings to study the problem, stay on track and on schedule, speak and write persuasively.

### **3.2 Research Design**

According to Zikmund (2003), a research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It is a framework or blueprint that plans the action for the research project. Also states that descriptive studies are based on some previous understanding of the nature of the research problem. A descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way (Kothari, 2004). To assess on effectiveness of internal Audit over cash in the case of Awash Bank Wolkite Branch. Thus, the study will employ descriptive research design to achieve its objective.

### **3.3. Population and Sampling Technique**

Relevant information of data is collected through questionnaires. The population under consideration or studied are all employees who are working in internal audit department at the head office of Awash Bank in Wolkite Branch. The target group of the study is all employees in awash bank in Wolkite branch to the internal auditors of the bank found in the internal audit process in Wolkite, Ethiopia. The study with employs purposive sampling technique to select sample units from the population. Those employees of the branch who are directly related with managing cash is selected as sample units. It includes three accountants, three auditors, two cashers, two journal keepers as well as one teller (11 employees) of the branch.

### **3.3.1. Sampling Design**

To conduct this study, non-probability sampling is used to select the study respondents from identified branches of the bank. Purposive sampling is essential as officials or experts who are directly working on the issues are expected to have rich knowledge than other persons. This technique is preferred because all these respondents is the only individual in that capacity that have required for the study. Besides, this technique is the best because all the respondents have unique characteristics and cannot be replaced by any other person hence purposive sampling is suitable. Therefore, those employees who are involved in managing cash are considered as sample, the researcher selects the Staff Respondents as follows: the Accountant, the Auditor, cashers, journal keepers as well as one teller who are highly related with the banking operations of the branches based on the available resource and time.

### **3.4. Data collection Methods:**

The researcher tried to use primary and secondary data collection methods. The primary data is collected by questionnaire method. Questionnaires are distributes to collect relevant data from selected employees; that are cashers, tellers, auditors, accountants and journal keepers and search for primary data documents like cash receipts and payment voucher and annual audit reports and secondary source of data like brochure, magazine and others.

### **3.5. Method of Data Analysis and Interpretation:**

The collected data were tabulate before data analysis which is respond in the form of questionnaires and then analyzed and summarized. Finally generation presented based on the result of the study.

## Chapter four

### Data Presentation, Analysis and Interpretations

This chapter deals with the data presentation, analysis and interpretation of the collected data. Based on the methodology stated, the selection of branches is made on non-statistical sampling method; judgment sampling is also taking in to consideration. The data presented on “Descriptive” approach. While the analysis is done through the data collected using questionnaire from selected employees of Bank of Awash Wolkite branches.

The researcher selected a total of 11 respondents and all of these 11 questionnaires were distributed to selected branch employees. All of which 11(100%) of the questionnaires were returned.

The following table shows the summary of this analysis.

**Table 1- Response Rate**

<b>Respondents</b>	<b>Plan</b>		<b>Actual</b>		<b>%</b>
Selected staff members	11	Questioner		Questioner	100%
<b>Total</b>	<b>11</b>		<b>11</b>		<b>100%</b>

Source: primary data

#### 4.1 Characteristics of Respondents

In order to understand the nature of respondents, this section will discuss the general characteristics of respondents as summarized below.

**Table-2 Characteristics of respondents**

<b>S. N<sup>o</sup></b>	<b>Item</b>	<b>Respondents</b>	
		<b>Number</b>	<b>Percentage</b>
1	Sex		
	a. Male	7	64%
	b. Female	4	36%
	Total	11	100%

2	Educational level		
	a. College diploma	4	36%
	b. B.A. Degree	5	46%
	c. Post graduate and above	2	18%
	Total	11	100%
3	Position (Occupation)		
	a. Accountant	3	27%
	b. Auditor	3	27%
	c. Cashier	2	18%
	d. Journal Keeper	2	18%
	e. Teller	1	10%
	Total	11	100%
4	Year of service		
	a. Below 3 years	4	37%
	b. Between 3-5 years	3	27%
	c. Between 6-10 years	3	27%
	d. Above 10 years	1	9%
	Total	11s	100%

Source: Primary data

As shown from the above table 2 item 1, out of the total respondent 64 % (7) were male and the rest 36% (4) were female this clearly indicates in Bank of Awash the number of male employees is more than female employees. Item 2 same tables regarding their educational level about 36% of the respondents are diploma holders, 46% of the other respondents are B.A. degree holders and the rest of respondents which is 18% of the total are post graduates and above, so this shows that the respondent can provide reliable data.

Out of the total respondent 27% (3) of the respondents are accountants, 27% (3) of them are auditors, 18% (2) of them are cashiers, 18% (2) of them are journal keepers and the rest 10% (1) of them are teller. This shows that majority of the respondents are accountants and auditors. As shown in table 3 item 4 out of 11 respondents 37% (4) of them are below 3 years of service, about 27% (3) of the total respondents

are between 3-5 years of service, while 27% (3) of the respondent are between 6-10 years of service and the other 10% (3) of them are above 10 years' service period.

In general this implies that since the establishment of Bank of Awash much of its employees are youngsters and some others are assumed to be the first establisher of the bank.

## 4.2 Analysis of Basic Variables

### 4.2.1 Internal Procedures and Manuals

**Table-3 Internal Control Review of cash**

N <sup>o</sup>	Item	Frequency of respondents	
		Number	Percentage
1	Does the bank update its work procedures and manuals in regard to internal cash controlling system		
	a. Yes	3	27%
	b. No	8	73%
	Total	11	100%
2	Is there continuous evaluation to revise internal control policies and manuals		
	a. Yes	1	9%
	b. No	10	91%
	Total	11	100%
3	If your answer is yes for question number 2 how often		
	a. Weekly		
	b. Monthly		
	c. semi annually		
	d. annually		
	e. any other time	2	100%
	Total	2	100%

Source: primary data

As it shown in item 1 of table 3, 73% (8) of the respondents reported that manuals and procedures are not revised at all, but 27% (3) of them stated that, there is up to date work procedure and manual regarding cash. As shown in item 2 and 3 of the same table 9% (1) of the respondents reply that the internal control is reviewed any other time; whereas 91 % (41) of them stated that the Bank do not conduct a continuous evaluation of internal policies and manuals. The general overview on internal control procedures and manuals of the Bank has a certain problem. From this analysis the manuals and procedures of cash receipt available in the Bank of Awash, the management should review in order to maintain more effective and efficient internal control system currently in practice.

#### 4.2.2 Cash Receipt Control Procedures and Practices

**Table-4 Personnel's follow up and implementation of procedures.**

N <sup>o</sup>	Item	Respondent	
		Number	Percentage
1	How do you get the implementation of internal control of cash receipt system		
	a. excellent	2	18%
	b. very good	2	18%
	c. average	7	64%
	d. bad		
	e. very bad		
	Total	11	100%
2	Do the personnel follow the procedure and policies set by the bank of cash receipt		
	a. Yes	9	82%
	b. No	2	18%
	Total	11	100%

Source: primary data

As shown in item 1 of table 4, 18% (2) of the respondents have stated that there is implementation of internal control, 18% (2) of the respondent reply that there is very good implementation and 64% (7) of

the respondent have stated average implementation of internal control over cash receipt system. As it can be observed in item 2 of the same table 82% (9) of the respondent were stated that the personnel follow procedures and policies set by the bank, while the rest 18% (2) of the respondents were stated that they do not follow procedures and policies set by the bank.

However, continuous follow up on internal procedures and manual of cash receipt should be done in order to perform the objectives of the bank. This problem has a significant contribution to the overall system of internal control in general and internal control over cash receipt in particular. While management officials of the bank also stated that money is easily accessible either in the bank or in the business and it is also a highly liquid asset. So the bank should strictly follow the procedures stated on the cash operation manual. In general the respondents from questionnaires follow up of internal control system is under take in the Bank of Awash; even though, rapidly changing management has its own impact on internal controlling system.

### 4.2.3 Internal control of cash payment Voucher System

**Table-5 Existence of Pre-numbered Voucher System**

N <sup>o</sup>	Item	Respondent	
		Number	Percentage
1	Is there a voucher system with regard to cash payment transaction?		
	a. Yes	11	100%
	b. No		
	Total	11	100%
2	Are the vouchers pre-numbered for each cash payment transaction?		
	a. Yes	2	18%
	b. No	9	82%
	Total	11	100%
3	Are the vouchers pre-numbered for each cash payment transaction		
	a. Yes	10	91%
	b. No	1	9%
	Total	11	100%

Source: primary data

As presented in table 5, 100% (11) of the respondents answered that there is voucher system of cash payment in the Bank of Awash. Whereas, in the same table in item 2, 18% (2) of the respondents stated that the vouchers are pre-numbered, the rest of the respondents 82% (9) of them stated about the non-existence of renumbered vouchers specially cash payment voucher are not pre-numbered. As shown in item 3 of the same table above 91% (10) of the respondent were stated that there is pre-numbered voucher for each cash payment transaction, whereas the rest 9% (1) of the respondents were reply some payment vouchers are not pre-numbered such as Telegram Transfer, Certified Payment Order and Checks. In general the pre-numbered cash payment vouchers are more vital to facilitate the working condition. So Bank of Awash should have to maintain all cash payment vouchers with serial number.

#### 4.2.4 Cash Custody and Dual Control Practice

**Table-6 Cash custody and dual control**

N <sup>o</sup>	Item	Respondent	
		Number	Percentage
1	Are the cash safes under dual control?		
	a. Yes	11	100%
	b. No		
	Total	11	100%
2	Are cash and cash related items kept in secured storage vault?		
	a. Yes	11	100%
	b. No		
	Total	11	100%

Source: primary data

The above table 6 shows that 100% (11) of respondents stated that cash safes are under dual control. As it can also be observed in item 2 of the same table 100% (11) of the respondent stated that there is secured storage vault for cash and cash related items.

#### 4.2.4 Duty segregation in the bank

**Table-7 Duties and responsibility**

N <sup>o</sup>	Item	Respondent	
		Number	Percentage
1	Does the bank have a practice of segregation of duties?		
	a. Yes	10	91%
	b. No	1	9%
	Total	11	100%
2	How is segregation of duty in the bank in regard to internal control procedure?		
	a. Sufficient	2	18%
	b. Insufficient	2	18%
	c. Average	7	64%
	d. Non-existence		
	Total	11	100%

Source: primary data

As indicated in table 7, from the total respondent 91% (10) believed that there is segregation of duty in Bank of Awash, and the rest 9% (1) stated that there is no duty segregation in relation with cash. So this implies that there is segregation of duty in the bank even though sometimes there might be certainties.

As stated in the same table item 2, 18% (2) of the respondent were stated that there is sufficient duty segregation in regard to internal control, whereas, 18% (2) of the respondents were stated insufficient duty segregation, on the other hand 64% (7) of the respondents clearly notice that there is an average duty segregation of internal control in Bank of Awash. This in general implies that there is average duty segregation in Bank of Awash. The purpose of these separations of duties is to make difficult for theft or errors to occur unless two or more peoples are involved; whereas most transaction is being under taken using liquid cash. Thus, everyone in the bank who is directly handling cash operations has to take due care. This means the segregation of duty with responsibility to take care of cash is mandatory.

## 4.2.6 Controlling environment and authorization of cash movement

**Table-8 Cash control system**

N <sup>o</sup>	Item	Respondent	
		Number	Percentage
1	Is there surprise cash count in transit?		
	a. Yes	10	91%
	b. No	1	9%
	Total	11	100%
2	Is there strong control activities that check authorization of cash transit?		
	a. Yes	6	55%
	b. No	5	45%
	Total	11	100%

Source: primary data

As shown in table 8, 91% (10) of the total respondent stated that there is surprise cash count in transit and 9% (1) of them have replied there is no surprised cash count transit. Whereas, in item 2 of the same table 55% (6) of the respondents replied “yes” for authorization of cash transit in Bank of Awash, while the rest 45% (5) of them answered “no” for strong control activity that check authorization of cash transit over internal control system. This implies that there is a presence of surprise cash transit count as well as a strong control activity that check authorization of cash undertaken in Bank of Awash.

Generally this indicates that the role of “surprise cash transit count and check authorization activities” in the internal control over cash system is crucial. This in turns maintain for the transit of cash activity in any financial institutes.

## 4.2.7 Status of the Current System

**Table-9 Level of internal control procedure and effectiveness**

N <sup>o</sup>	Item	Respondent	
		Number	Percentage
1	Is the internal control over cash efficient to transit <sup>2</sup> service transaction?		
	a. Yes	2	18%
	b. No	9	82%
	Total	11	100%
2	Do you think “Bank of Awash” has generally a sound internal control over cash transit?		
	a. Yes	4	36%
	b. No	7	64%
	Total	11	100%
3	What do you suggest to improve current internal control over cash transit system?		
	a. It should be revised	6	55%
	b. It must be supported by computerized system	4	36%
	c. Keeping as it is	1	9%
	Total	11	100%

Source: primary data

On the top of the open-ended questions the respondents were asked to forward some specifications on the overall cash procedures and manuals. From the respondent point of view 82% (9) respondents stated that the internal control system is not efficient to transit service transaction, but the rest of the respondents 18% (2) replied that there is efficient service transaction in regard to cash control. This indicates that there is a need for amendment on the internal control system.

In the same table item 2, 36% (4) of the total respondent reply that there is a sound control over cash transit procedure and manual, whereas 64% (7) of them stated that there is not a sound internal control system in Bank of Awash. Accordingly, item number 3 shows 55% (6) of the total respondents suggested internal control over cash transit system should be revised, while 34% (4) of them suggested that it must

be supported by computerized system, and the rest 9% (2) of the respondents recommended that they support the manuals and procedures currently in practice.

From this context, procedures and manuals with regard to cash transit controlling system in the bank of Awash seems out dated, and this indicates there is an old fashion working environment which leads to dissatisfaction on customer service area and decline on employees' initiative to work. So, it needs revision of working environment with the current up to date technologies including computerized banking system for the satisfaction of customers in general and for the initiation of employees in particular.

## **Chapter Five**

### **Summary, Conclusion and Recommendation**

This research was conducted to assess the effectiveness of internal control over cash system currently in practices in Bank of Awash; Wolkite branches. To successfully meet the objective, as explained in the methodology part of the study, for a total number of 11 respondents, that was the sample size. Questionnaire were distributed and collected. The researcher has tried to see the effectiveness of internal control over cash systems in perspective of employee's response to the case under study.

#### **4.1 Summary**

Employees were asked about internal control review, their responses were, 73% of the total respondent stated that the bank internal control over cash procedures and manuals are not revised at all. Regarding personnel follow up and implementation, 73% of the response shows that there is average implementation. And there is also personnel follow up on the procedures and manuals set by the bank with regard to internal control over cash. Furthermore, 100% of the employees were stated that cash and cash related items kept in secured storage. 91% of them are stated that there is average segregation of duty in bank of Awash. 100% of the response shows that there is voucher system in the bank of Awash, but 82% of the respondent stated that the cash payment vouchers are not pre-numbered, except, Certified Payment Order (CPO), Checks and Telegraphic Transfer (TT). 82% of the response shows that the internal control system is not efficient to handle service transactions. The selected officials were asked on different areas, about cash in transit, they replied that the branch when needs cash supply directs it requisition to the "treasury" at head office specifying denomination by using fax.

#### **4.2 Conclusions**

According to the analysis and findings of the study the following conclusions were drawn.

A number of problems have been investigated on the analysis of employee comment, the major one includes: the manuals and procedures not reviewed at all and lack systematic approach to its work environment. Employees had complaint in personnel follow up and implementation with regard to effectiveness internal control over cash system and also top management rapidly changing in the bank. This situation may create there might not be effectiveness enough with regard to implementation of procedures and manuals set by the bank. Most of the respondents are satisfied with cash custody and dual control systems of the bank. So, cash in any way should not be left to a single individual custody. Cash

can be stolen and the employee can cover up the shortage by falsifying the accounting record. So, the level of voucher system of the bank is weak to protect the risk. Setting the minimum cash requirement to meet the day to day operations and the maximum cash holding limit up to the amount of the sum insured is essential part of cash movement. Holding cash carries opportunity cost of profit which could be made if the cash was invested elsewhere. The bank has to balance the advantage of liquidity as a security against insolvency on one hand and profitability on the other hand.

Therefore, concerned with optimizing the amount of cash available to the bank and maximizing the interest on any excess fund not required immediately to the National Bank of Ethiopia's debit advice; Cash in transit are possible, the way awash bank administers the cash gap that is the limit or excess have some problems. Using telephone message and letter are not adequate enough to overcome the problem. Trip with cash may expose and will affect the operation of the bank. Awash bank's another strongest area on the application of internal control can be attributed to cash receipts and cash payment activities. Thus the bank must have to deal with the cross checking methods. As the result of this study indicated that the branch manager, assistant branch manager and chief cashier use separate keys for closing and opening of the safe vault. But there is a possibility for the branch manager, assistant branch manager and the cashier to conspire and commit fraud. So, the bank must have to control such conspiracy to protect unpredictable mischiefs.

The researcher also identified that the teller marked "counterfeit" forged notes presented to it by customer and found to be counterfeit. According to the researcher, this activity appears to have impact on the efficiency of the tellers as they do. To give safe guard for the teller, the bank should implement a modern technology that identifies forgery notes.

The researcher also disclosed that bank of Awash uses internal control over cash in order to safeguard cash from waste, fraud and inefficient use. In addition, the researcher also provide that the internal control structure currently in use by the bank is fairly sufficient in terms of achieving the Bank's objective but the researcher also finds the backward technological advancement in comparison to other private and government banks which they are currently run in Ethiopia.

### **4.3 Recommendation**

The following recommendations are made on the basis of the research findings and literature reviewed. Remove over reliance on one individual, do not delegate significant authority to one person to establish, implement, monitor and enforce any single function of the bank as it is now. The system permits the

branch manager, assistant manager and cashier to collaborate and steal the safe vault. The fact that collusion is one of the limitations of internal control, rotating workers shall be considered. In addition to this, Continuous assessment on the implementation on the effectiveness of internal control should be done in order to improve the quality of internal control system of the bank.

The problem of accessing on-cash staff to cash area can easily be seen. The bank (branches) should strictly follow the procedures stated on the cash operation manuals. Since an unqualified audit report do not guaranteed that internal controls are effective organizations should continuously monitor the effectiveness of the internal controls.

Training should be given timely to update the employees by control department. And it is advisable to conduct back ground checks on all potential employees before hiring. Carefully screen them to make certain they are qualified and have no record of fraud. The voucher system i.e. all deposit and withdrawal voucher must be serial or pre-numbered for the checking and verification that can enable healthy operation.

The whole cash including the vault shall be re-checked and properly investigated periodically further tellers who regularly experience shortage shall be identified, so that management can take necessary measures. In order to investigate forged notes Bank of Awash must have to use automated detector machine. Collect the token from the beneficiary and ascertain that the number written on the paying tickets is the same with that of the token presented by the customer and knowing the customer is very advisable for tellers.

Whenever cash balance is made, it has to be checked against journal records at all times. And to be more accurate the bank should have also use the automated techniques that accelerate the system too. As stated in the conclusion part the problem of treasury management in internal control of cash gap is not effective. As much as possible the function should sent to the head office as the cash limit is above its pick point in a branch of Bank of Awash, otherwise the bank may not get insurance coverage. And this also due to National Bank of Ethiopia that has not perform its responsibility on cash limit and excess. So, the National Bank must take its responsibility on treasury management of banks. In order to prevent

problems that can be arising when there is cash in transit telephone communication must be in-coded and can be used in a given time.

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**APPENDIX-I**

**WOLKITE UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**Questionnaire for employees**

**Dear Respondents.**

I am conducting a research work on Assessment of Internal Audit effectiveness over Cash in the case of Awash Bank, for my partial fulfillment of, BA Degree in Accounting and Finance. I kindly request you to genuinely complete this questionnaire and this would greatly enhance the quality of my research.

I assure you that the information that you provide will be kept confidential and would only be used for academic purpose.

Thank you in advance for taking your precious time to fill it on for me.

NB. Do not write your name

**Part I: General Background Information**

Instruction I: Respond for the following items by putting a tick (/) mark on the box provided.

- 1. Sex; A. Male  B. Female
- 2. Educational Level: A. College Diploma  B.Sc. or B.A. Degree   
C. Post graduate and above
- 3. Position: A. Cashier  B. Accountant   
C. Auditor  D. Journal Keeper  E. Teller
- 4. Year of Service: A. Below 3 years  B. Below 3-5 years   
C. Below 6-10 years  D. above 10 years

**Part II. General question related to Internal Control over Cash Instruction II:**

Respond by putting a tick (/) mark on the box provided and explain the items that need further explanation. You can mark more than one item.

1. Does the Bank update its work procedures and manuals in regard to internal cash controlling system?

- A. Yes  B. No

2. Is there continuous evaluation to revise internal policies and manuals?

- A. Yes  B. No

3. If your answer for question number 2 “yes” how often?

- A. Weekly

- B. Monthly
- C. Semi-Annually
- D. Annually
- E. Any other time

4. How do you get the implementation of Internal Control of cash receipt system? A. Excellent

- B. Very Good
- C. Average
- D. Bad
- E. Very bad

If your answer is “Bad or Very bad” please specify \_\_\_\_\_

5. Do the personnel follow the procedure and policies set by the Bank of cash receipt?

- A. Yes
- B. No

6. Is there a Voucher system with regard to cash payment transaction?

- A. Yes
- B. No

7. Are the voucher pre-numbered for each cash payment transaction?

- A. Yes
- B. No

8. Are the voucher pre-numbered for each cash payment transaction?

- A. Yes
- B. No

9. Are the cash safes under dual control?

- A. Yes
- B. No

If your answer is “No” please specify \_\_\_\_\_

10. Are cash and cash related items kept in secured storage (Vault)...?

- A. Yes
- B. No

If your answer is “No” please specify \_\_\_\_\_

11. Does the Bank have a practice of segregation of duties with responsibility?

- A. Yes
- B. No

12. How is duty segregation in the Bank in \_\_\_\_\_ regard to internal control procedure?

- A. Sufficient
- B. Insufficient
- C. Average
- D. Non –Existence

13. Is there surprise Cash Count transit?

- A. Yes
- B. No

14. Is there strong control activities that check authorization of cash transit?

A. Yes  B. No

15. Is the Internal Control over Cash System efficient to handle service transaction?

A. Yes  B. No

If your answer is "No" please specify\_\_\_\_\_

16. Do you think "Bank of Awash" has generally a sound Internal Control over Cash transit?

A. Yes  B. No

If your answer is "No" please specify\_\_\_\_\_

17. What do you suggest to improve current Internal Control over Cash transit System?

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